CANADA'S PECULIAR ADVANTAGES IN FOREIGN TRADE

How These Are Thwarted
: : By Our Tariff : :

By CARLETON W. STANLEY

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CANADA'S PECULIAR ADVANTAGES

There are two things which are nearly always overlooked in a discussion of the tariff in Canada—two things of the very greatest importance, and which we overlook to our great loss. Even those among us who have long pondered tariff problems, and have certainly glanced at these aspects of the case, have hardly, so it seems to me, considered them fully, and have not pressed home their far-reaching importance.

The General Principle

The first is this: that a tariff, however small, on any import whatsoever, is a tax levied on exports, of every kind, and makes export of anythiug whatsoever more difficult.

The second is this: that the importation of anything whatsoever, even exotics such as nutmegs from the isle of Banda, sisal from Mexico, forces us to export and makes us develop those industries and productions which are easiest for us.

It will be seen that these two propositions fit into one another, as they both have to do with a country's exports, and before considering them separately, it may be well to pause over Canadian exports, especially as nearly every false doctrine about the tariff arises from neglect of this side of a country's wealth.

Canada's Pre-eminence as an Exporting Country

Canada exports more goods, per caput, than any other country. As we do not export these goods for nothing, and could never be induced to do so, it must therefore be true that by increasing our exports we shall grow richer. If by some accident the population of Europe were wiped out, or if, by another chain of accidents, Russia, the Argentine and Australia combined to export wheat in excess of the world's demand, nothing could induce our prairie farmers to go on producing and exporting wheat. An increased export of wheat on our part therefore means an elastic demand for it somewhere else in the world, and an increase in our wealth as a result.

Why We Have This Pre-eminence, and Why It Will Continue

The reason that we export more per caput than any other country is that we are intrinsically very rich, but rich chiefly because of products which can only be sold abroad. We so often talk glibly of our "national resources" and yet fail to see this implication. Indeed we are so imitative of the wordy Mr. Roosevelt that we use the phrase unthinkingly and speak as though national resources meant merely such things as forests which we must keep for our remote descendants.

Our Agricultural Land—East and West

Our greatest source of wealth, however, is our agricultural land, of which we possess more square miles per caput than any other nation. Not only could we use this greatly to increase our agricultural exports—sugar, industrial alcohol, drugs of many kinds, vegetable oils, as well as the things we think most about, such as wheat, cheese, meat, wool and so forth—but we could use the land now wasted in the neighborhood of our towns and cities to reduce in them the cost of living and so cheapen, and enhance the export of, our mannfactured commodities. Every European traveller exclaims at the absolutely wasted land in the vicinity of our towns. Having more good land than any other country it is of course natural that we should waste more of it. But in hard times it is scandalous that we do not make a beginning at this most obvious thing. Within a radius of fifty miles of Toronto and of Montreal there is enough waste land (by which I do not mean land bearing trees, nor stony ground, —which should of course be bearing trees—but good soil that needs nothing more than drainage perhaps, and stubbing, to convert it into tilth or pasture) to feed the entire population of the two cities and still export millions of dollars worth annually.

Other Riches: Electric Power

But agricultural products, present and potential, are not the only things that make us a great exporting country. In timber and wood products, in fish and fish products, and in fur, we are also in the very front rank of exporting nations, and shall continne so for a long time to come, and for an incalculable time if we discontinue our present wasteful methods. In gold, silver, nickel, asbestos, etc., we have deposits from which we can export under almost any conceivable conditions. Of other materials, chromium for example, we have deposits which can be exploited only if we extend our scientific knowledge and reduce our costs. Mining engineers and business men who have given their attention to the matter seem to agree at the present time that our export of minerals could easily be increased many times over, and will be so increased in the next few decades. In this development electrical energy will play an important part.

Electric Energy to Produce Aluminium

It is now assured that our exports of aluminium (as we must call it if we speak English) will be increased on a colossal scale in the next few years. Aluminium, though it occurrs all over the world more frequently than any other metallic element, is one of the newer metals. It is less than one hundred years ago that it was first separated by a young German chemist named Friedrich Wohler. It is found in conjunction with a great many other things, but it is easiest to produce it commercially from bauxite, or aluminium ore, by electrolysis, and of the two factors the bauxite is of course easier to transport than electric energy. The Americans have long been the chief exporters of aluminium. They have mined the bauxite in British Guiana and manufactured it at Pittsburg, and they have long had an important branch plant at Grand Mere, Quebec. But Canada, like Norway, is a country which has an abundance of electric energy at tide-water, and the bauxite is mined almost at tide-water in British Guiana. It is now practically settled that the production of aluminium in North America will take place on the Saguenay River, to which the earthy ore can be transported the whole way from British Guiana, by water. Aluminium by reason of its lightness, and its resistance to oxidation, will find an ever increasing market in the world, and so far as can be seen at present Canada will be the chief exporter of it.

Our Wealth Based on Exports, Our Comparative Poverty in Other Respects

To sum up: we are a rich country by reason of the things that we export. We could be much richer if we exported more. It is true that we are a comparatively poor country in many respects. As compared with a compact country like France for example we must pay enormously for transport, even in our internal trade. As compared with Australia we must pay enormously more to feed, clothe and house ourselves, simply because of our colder climate (Professor Herbert Heaton of Adelaide, Australia, estimates the increased expense at about twenty per cent.) But even with these drawbacks we are still rich because we can still profitably export. In a recent article by a singularly well-informed and well-balanced writer, ("The Political and Economic Condition of Canada," by J. A. Stevenson, in the April Edinburgh Review) the relative wealth of Canada and the United States is compared with the relative wealth of Scotland and England before the Union. This is, I think, a mistaken analogy, and the mistake arises from a failure to consider the balance of trade. As regards climate, and area and compactness of habitable country, the analogy is nearly perfect, but in no other respect will it bear analysis. The soil of Scotland is barren and mountainous as compared with England's. It could export food to England only by starving itself. It had no minerals to export which England did not have in greater abundance. It was not nearly so advantageously placed as England with regard to foreign trade. Its fisheries were important but it could not hope to export fish to England. It had little timber, and indeed no great natural wealth of any kind. But in all these points—fertility of soil and food supply, in mineral wealth (except coal) in fisheries, in timber, wealth, and above all in regard to foreign trade we are not disadvantageously situated in comparison with the United States.

Two Classes of Countries: Those Who Export Largely and Those Who Do Not

It is of the very greatest importance to dwell upon our exports because they are the very basis of our economic existence. A compact and economically self-sufficient country has a comparatively small foreign trade. Various authorities have computed the foreign trade of the United States during the period of 1900-1914 as being from 7 per cent. to 10 per cent. of its total trade. The internal trade of France is many times its foreign trade. But geography, or national character, or other circumstances such as political development, may cause a nation to rely very little on its internal trade. Before the war 40 per cent. of Great Britain's total trade was foreign, and if services such as banking, insurance, shipping were counted in, the proportion would have been even greater. The people of Chile, who have an attenuated mountainous strip of territory, rich in little but nitrates, promise to become the seamen and carriers of South America. Switzerland, by harboring the unorthodox, and consequently the intelligent exiles of her neighbors, gained an early ascendancy in fine manufactures, and has always thriven on foreign trade. Her mountainous territory, so often derided by European political writers, she turned to advantage in the same direction.

Geography Makes Us Belong to the Former Class

What future has Canada if it does not develop its foreign trade? Can we grow rich as Frenchmen grow rich, or as Americans grow rich, by trading among ourselves? It is a mathematical law that trade is rendered difficult by the square of the distance from the source of supply (Lardner's Law of Squares). This is true because the area of a circle varies as the squares of its radius. If France or the United States may be considered as a circle, Canada must be considered a

straight line. Countries have previously grown rich by holding a long line of communications, but not by trading merely within this line. Venice is an example—half of the communication being by water, to the East, the other half by land, to the North and West. Or, to consider the question less technically and less historically, is it conceivable that Canadians can sell to Canadians all the wheat they grow, all the nickel and asbestos and silver they produce; can Canadians use in producing for Canadians alone a hundredth part of the electric power they possess?

These questions answer themselves. Yet there are among us people who rail at prairie farmers for using some of the best wheat fields in the world for growing wheat. There are manufacturers among us who say that Canadian manufacturers should aim at the Canadian market only, and who claim that we cannot compete in manufacturing with other countries. A good many such utterances are insincere, but I think it is also true that such things are said because we think our position is the same as that of other countries, especially as that of the United States.

This Does Not Mean That We Shall Have Fewer Industries.

The more we study history, the more we pay attention to economists, not forgetting a great economist in our midst, Professor C. R. Fay of Toronto University, the more we study our own blue-books and attempt to find out the actual drift of our development, the more clearly shall we see that our future prosperity depends upon developing our exports. And in this connection we need never fear that we shall export raw materials alone, or food alone, and fail to export manufactures. The whole economic tendency of the world is that there is more and more foreign trade governed by differences of natural resources, and less and less foreign trade governed by backwardness in industrial development. Even India and South American countries, to say nothing of Australia and Canada, show the truth of this.

A Tariff Is Impertinent To These General Laws.

It may be said that such a tendency should be aided by tariff legislation, and has been so aided in the past, in the case of Canada, the United States and Australia. This is to mistake the parasitic growth for the tree. It is ludicrous to insist, for example, that legislation played any part in that gigantic growth the Bethlehem Steel Works. So it is ludicrous even to dream that the high Australian tariff on oil-paintings will promote artistic endeavor among native Australians. And, per contra, we see industries growing up in our midst, Courtauld's new plant at Cornwall, Ontario, and the steadily developing binder-twine industry in Brantford, Ontario, which have had no tariff aid whatever.

How The Tariff Works In Canadian Trade.

Taking it now as demonstrated that our economic future depends mainly upon developing our exports, let us return to our first proposition, viz—that a tariff, however small, on any import whatsoever, is a tax levied on exports, of every kind, and makes export of anything whatsoever more difficult.

How A Shoe Tariff May Prevent Our Selling Grain.

Suppose, for example, that we decide to confer a benefit on Canadian shoe manufactures by imposing a duty of 20 per cent on foreign shoes. There may be many consequences of this tariff, but if we trace out each possibility we shall see that it hinders and lessens our export trade. At first sight it may appear that we shall import a great deal less of foreign shoes. In that case our banks will receive fewer bills of exchange in favor of foreign merchants. But it is exceedingly rarely that bills of exchange are settled by shipments of gold. They are offset by foreign bills of exchange in favor of our shippers. Any diminution of our demand for foreign goods is almost immediately followed by a diminution of demand for our goods. If this were not so it would mean either (a) that we were sending as many of our goods out of the country as before, and taking fewer goods in return for payment —which it is not in human nature to do or (b) that having an absolute monopoly of certain merchandise, wheat, for example, we could force other countries to take as many of our goods as before, and make up the deficiency in goods received from them by shipping us gold—but of course we have no such monopoly, and as a matter of fact foreign trade is never thus conducted.

In so far as we limit our imports therefore, we limit our exports.

The Invisible Trade Balance.

This truth is not upset, of course, by statistics which show that over a certain period we export more goods, in millions of dollars, than we import. In the first place we must export in value not only the worth of what we import—but also we have to pay a foreign nation, Britain, say, for carrying and insuring our foreign trade. If we have been borrowing foreign capital also we must export a surplus in order to meet the interest of this debt.

Other Possibilities: Waste In Any Case.

To come to other possibilities in our hypothesis. Of course a tariff of 20 per cent may not restrict imports of foreign shoes to any great extent. Foreign shoes may be so much cheaper, or more durable, that as many of them will be imported as

ever. But in this case ev ry Canadian user of foreign shoes will have to pay 20 per cent more for them. A certain part of this 20 per cent tax will make its way into the government treasury, and will lighten general taxation. Even if government is very clean and efficient, however, a certain part of the 20 per cent tax is lost in collecting it—and this much is absolute waste. At the same time, a good many purchasers of shoes, knowing that the foreign article is taxed will consider purchasing the domestic article, which they have hitherto considered less desirable. If the article really is less desirable, at the same price, they make a bad purchase, and here is waste again. If the Canadian maker, producing a somewhat inferior article is enabled by the 20 per cent tax on his foreign competitors to sell at a somewhat less price, and so balance inferiority with cheapness, there is still waste of the national capital in an industry which needs, besides the advantage of a proximate market, a 20 per cent artificial advantage.

Whatever one of all these possibilities happens the cost of shoes is increased for every Canadian. If he buys as many shoes as before his real income is to this extent lessened, and as we have seen his loss of income does not by any means all accrue to the government. But if his real income is seriously lessened by duties on other commodities as well as shoes, he must have higher wages and higher profits on all the things he produces. Consequently his ability to export his production is lessened in competition with other countries.

Aggregate National Efficiency Impaired

It will be seen from this how foolish and preposterous it is to claim that a tax on imports increases employment in Canada. The source of all wages to workmen, and profits to employers, and rents to owners of real estate, is the aggregate efficiency of national production. To increase the cost of any commodity which must be used anywhere in the community lessens the aggregate efficiency of national production. It is a commonplace that a protected industry is not an exporting industry. Except in wartime Canada, for example, has not been an exporter of shoes, in which article she has a tariff. And the two great exporters of shoes into Canada, Great Britain and the United States, do not themselves levy an import duty on shoes. In this unprotected industry they have each a great export trade. But it is not only in the protected industry that protection militates against export—it is in all industries.

Two Independent Mathematical Proofs of This law

I do not intend to labor this point. The approximate truth of it is apparent to any one who is capable of following an argument, especially so to any who has travelled or engaged in foreign trade. The mathematical demonstration of it was published and circulated among economists by the late Alfred Marshall in 1879, and also by Auspitz and Lieben, in their "Theorie des Preises," in 1889. Quite independently of Marshall's work they made the same proof, using very nearly the same graphs as Marshall.

In Marshall's last work, "Money Credit and Commerce," published in 1923, it is in fact laid down that import duties restrict a country's exports as much as would a tax on her exports.

Even Countries Which do Not Export Largely Suffer From Tariffs

If this is true in general it is, as I have said before, of the highest importance to Canada, because exports are and must continue to be the basis of our existence. If for geographical reasons a country's export trade is small in proportion to its total trade, it will easily stand the loss of national efficiency, in competition with other nations. If America woollen manufacturers get a high protection, and so lessen real wages for all American wage earners, and real profits for all other American manufacturers, these latter can be relied on to use political pressure to secure a like adventitious advantage in their industry. If nearly all Americans sell their entire production to other Americans the thing works round in a circle, and the United States as a whole is not very much poorer. * Yet poorer it is, and poorer, too, is France, most of whose trade is internal.

Historical Considerations

Many countries as well as Britain and Holland in modern times have been faced with the alternative of developing their export trade by abolishing tariffs on imports, or falling into economic unimportance. Geographical position, historical

* Even in the United States the industries which suffered most from the tariff have always been articulate in opposing it. The cotton-growers of the South have always been exporters, have always had their profits determined by world-prices. And the "Democratic South" has always stood for free trade, or at least for low tariffs. Mr. Henry Ford may be a person of rather obtuse political vision, but he has had a belief in the necessity of Free Trade forced upon him by the fact that he is, personally, the greatest American exporter.

development, or what may seem a chapter of accidents, may force such an alternative on a country. It may seem a chapter of accidents that an Englishman, John of Gaunt, should have had a descendant in Portugal who showed an apttude for navigation and founded a school in it, and that all this should have happened just at a time when Turks were able to shut Europe off from the far East by land. But given these "accidents" the Portuguese East Indies and Brazil are a direct result, the voyage of Columbus is an indirect result, and a more remote result still is Holland's great Empire in the East Indies.

The Byzantine Empire was a sort of accident perhaps, the conclusion of which was just ready to come about, when Leo the Isaurian saw his chance, and refounded the tottering power, economically and morally, on the basis of Free Trade. It lasted another five hundred years, and mode modern Europe possible. As Leo saw his chance and took it, so the Portuguese and Spaniards missed theirs. Three quarters of a century ago Cobden and Peel, following Adam Smith and Pitt, saw the chance for Britain.

Perilous For us to Disregard These

At no period in these countries can it have been clearer than it should be to Canadians today that to live at all they must live by exports:

We are a narrow line, falling within one zone. We front on two oceans (it is worth noting that when the Americans framed their tariff no one dreamed of the importance of the Pacific). Our natural endowments force us to export; our natural disadvantages render it impossible for us to have any great trade among ourselves. In every respect almost we are as unlike the United States as possible; the fiscal policy which has been comparatively innocuous to them, may be our ruin.

Imports a Token of Our Wealth, And a Cause of it

Our second proposition was: that the importation of anything whatsoever, even exotics such as nutmegs from the isle of Banda, sisal from Mexico, forces us to export, and makes us develop these industries and productions which are easiest for us.

This may be more briefly dealth with. It will be seen from all that has preceded that it is a great economic mistake for us to prevent, or try to prevent, imports, just because they are imports. It may be wise on political and moral grounds for us to prevent, or hinder at least, certain imports, such as opium But any import whether it be French perfume, which is a luxury, or beuxite which we are going to work up and re-sell, or whether it be something unlike either of these two in that it is the sort of thing we can ourselves produce—any import whatsoever is a clear sign that someone, somewhere, is willing to buy our goods, nay, perhaps has already bought our goods. To make it difficult for this seller to sell to us, is making it difficult for us to sell to him.

Potatoes Under Glass And Arctic Furs

A great deal of play has been made, in tariff discussions in this country, of the fact that we import early in the year garden produce which we ourselves produce later in the year. It may be asked whether such importations increase our exports. They assuredly do. To suppose the opposite is to suppose that we get these things for nothing. But, it may be said, we pay too high a price for these products, and throw our international trade out of gear. (I have read such statements, made even by Canadian bankers). To say this is to disclose ignorance of all trade, domestic as well as foreign. It is equivalent to saying that Alberta coal should sell in Ontario as cheaply as in the West, or that Toronto pays too dearly for electric energy if it carries it from Niagara. As to international trade. Canada, too, has exotic things to sell—Nova Scotian lobsters which go to Florida, and white fox pelts taken in the Arctic Circle.

The Economic Relation of Canada And The U. S. Not Unique

The island of Guernsey, according to Marshall, exports potatoes to England early in the season, and later in the year buys back from English producers potatoes for its own consumption. There is nothing uneconomic in this arrangement. There being free trade between the two islands the arrangement could not exist if it were uneconomic. The uneconomic, wasteful thing is to attempt to upset, by legislation, such natural outflow and inflow of commodities.

Trade or Suicide

Every importation, whether of an exotic, or of luxury, or of raw material, is the indication that we are exporting our products, some of which are exotics to the purchaser, and many of which are luxuries which purchasers could do without. If we cannot export these products we have a miserable, and indeed a very doubtful future before us. Exports are our life, the breath of our existence. Taxes our country must have, but to tax ourselves wastefully, and by cutting at the very roots of our being, is to inflict on ourselves a national paralysis, it is slow suicide.